

# **THE FEDERAL HOME LOAN BANK OF CINCINNATI**

## **Community Lending Plan**

**Year 2004**

---

### **INTRODUCTION**

On December 28, 1998, the Federal Housing Finance Board (Finance Board) issued regulation 98-48, entitled, the Community Investment Cash Advance (CICA) regulation. The CICA regulation addressed all current and future community-oriented lending activities in which the Federal Home Loan Banks (FHLBanks) may engage and provided the FHLBanks an opportunity to address formally the provision of credit for community lending (economic development) activities. The regulation required the FHLBanks to complete an assessment of the economic development needs and market opportunities occurring in their respective districts by June 30, 1999 and to develop a community lending plan in response to the identified needs by January 31, 2000 and annually, thereafter.

### **MARKET RESEARCH/ASSESSMENT**

The Bank assessed community lending needs and market opportunities occurring within the Fifth District by consulting with numerous individuals, agencies, cabinets, member institutions, organizations and professionals in the economic development field. The Bank conducted community lending forums throughout the District and reviewed published materials, reports and indicators of unmet housing, Brownfields, and economic development needs. The first Assessment of Community Lending Needs and Market Opportunities Report was submitted to the Finance Board in June, 1999.

Throughout 2000, the Bank engaged in additional research into economic development needs through ongoing consultation with agencies, cabinets, member institutions, organizations and professionals in the economic development field. The Bank conducted a series of five economic development informational meetings at which information on economic development opportunities was solicited from the member institutions in attendance. In addition, the Bank hosted a regional conference on metropolitan growth and sprawl.

During 2003, the Bank continued to assess needs and promote economic development opportunities. Bank staff continued to meet with lenders in Memphis participating in the Memphis Business Opportunity Fund. The Fund is pooling resources from the City, from lenders, and others to create a vehicle for business lending and investment. The Fund is administered by Southeastern Community Capital, one of the Bank's Partners, and the Bank is sharing in the Fund's operating costs for the first two years.

## **SUMMARY OF IDENTIFIED NEEDS**

The market research identified credit needs and market opportunities in economic development lending in three sectors: real estate financing needs, business financing needs, and specialized needs. The additional needs identified through research and other forums were incorporated into the original summary of identified needs.

### **Real Estate Financing Needs:**

1. Fixed rate financing, at low-interest or guaranteed rates, for construction and permanent financing.
2. Downtown development, i.e., façade and improvement loans for commercial properties and financing of upper story housing.
3. Infrastructure improvements and neighborhood revitalization.
4. Pre-development funding sources for commercial and mixed-use real estate development.
5. Childcare/Daycare facilities, freestanding and within affordable housing developments.
6. As housing development is a recognized economic development activity, real estate financing for newly constructed affordable owner-occupied and rental housing development, as well as the preservation of existing affordable units, remains an important and unmet need.

### **Business Financing Needs:**

1. Equity investments (venture capital, seed money, micro-loans) for business start up and expansion, especially in rural and Appalachian communities.
2. Loan guarantee programs and lender consortia formation for small to medium-size business credit needs.
3. Pre-development funding sources for small business development and expansion purposes.
4. Disadvantaged business development financing, i.e., additional credit resources to provide capital for minority, women-owned, and disadvantaged business formation.
5. Increased credit resources for construction or modernization of plant and equipment, thereby increasing productivity, new product development and market expansion opportunities.
6. Financing of non-traditional industries and entrepreneurs, e.g., tourism, seasonal enterprises, and new and expanding medical technologies.
7. Financing for emerging technology companies.

### **Specialized Needs:**

1. Small business and entrepreneurial technical assistance support, i.e., business planning, financial management assistance, business development assistance and marketing.

2. Education and technical assistance to members, community financial intermediaries and public and private economic development partnerships and organizations.
3. Credit and financing needs in both urban and rural areas for Brownfields acquisition, remediation, site preparation and redevelopment.
4. Mortgage credit and down payment assistance in support of minority homeownership to produce equity buildup for business formation and expansion.
5. Financing and lines of credit for social service programs in support of housing development.

### **COMMUNITY LENDING ACTIVITIES AND METHODOLOGIES FOR 2004**

In response to the identified needs, the FHLBank will continue to provide leadership in the provision of financing for community economic development, and small business expansion in the Fifth District.

All communities, particularly distressed communities, should be empowered to develop and implement their own economic development and revitalization strategies. The primary programmatic objectives of the FHLBank's Community Lending Plan are to respond to community needs and priorities that retain and create private sector jobs and leverage private capital.

These objectives will be accomplished through increased entrepreneurial lending and promotion, small business lending and promotion, and member venture capital investments for community and economic development activities within the Fifth District. These objectives should also result in additional public works investments and the generation of increased tax revenues for distressed communities.

In its June, 1999 Initial Assessment of Community Lending Credit Needs and Market Opportunities, the FHLBank noted a number of diverse credit needs that hinder the development of viable, sustainable communities in parts of the Fifth District. Subsequent research has reinforced these findings. The attraction of capital to business start up and expansion within certain geographic sectors remains the lowest in the nation. The FHLBank recognizes that a unified assortment of strategies and participants are necessary to address the identified community and economic development financing needs in each community.

### **LENDING ACTIVITIES**

#### **Advances Programs**

The Bank's Economic Development Advance (EDA) Program introduced in 2000 will address economic development lending. The Community Investment Program (CIP) will continue to be utilized to address economic development and housing financing within

targeted communities and to assist economic integration of lower-income communities by providing financing for housing located in moderate income communities by low-and moderate-income borrowers.

The Bank will encourage use of advances in conjunction with the New Markets Tax Credit program and as part of the activity of the Memphis Business Opportunity Fund.

### **Zero-Interest Loan Fund**

In 2000, the Board of Directors approved the establishment of a Pre-development Fund (Fund). Late in 2001 and in 2002, the program was modified to better meet the needs of lenders. It has been refocused and renamed the Zero Interest Fund. The Fund will continue to provide zero-interest, recoverable loans to member institutions working with for-profit and not-for-profit organizations involved in the development of community lending projects. The Fund, capitalized by the Bank through contributions provided annually for a period of four years, will assist with early project costs typically not available through normal member lending practices.

During 2003, the Zero Interest Fund was broadened to include other uses, such as real estate acquisition related to development, working capital, and housing development, and, under certain circumstances, borrowers will be allowed to extend the term beyond the initial two-year period. The Fund will also be promoted through economic development consortia and business development centers at universities.

### **Letters of Credit**

The Bank will continue to promote utilization of letters of credit as effective tools for housing and community lending activities.

## **NON-LENDING ACTIVITIES**

### **Partnership Development/Strategic Alliances**

In 2000, the Bank was instrumental in the development of seven partnerships and strategic alliances with established economic development organizations and a state housing finance agency within the District. The purpose of the partnerships is to further economic development activities, particularly in under-served regions of the District.

In 2001, the Bank increased the number of partnerships to ten by developing three additional partnerships with organizations involved in community lending and specialized needs. The Bank also focused on responding to the credit needs of the existing partner organizations. The Partners also met with the Bank's Advisory Council and summarized their work and offered suggestions about meeting future needs.

In 2002, the Bank focused on responding to the credit needs of the ten partner organizations. The Bank will seek to involve member institutions with the partner organizations.

During 2003, The Bank continued to assist in structuring partnership relationships between members and nonprofit organizations involved in community lending activities. In 2004, the Bank will continue to foster the development of partnerships between members and nonprofit organizations to facilitate economic development project lending and multi-family lending.

The Bank became a full member of the Kentucky Renaissance Alliance (Alliance) in 2000. The Alliance is comprised of seven agencies dedicated to redevelopment and revitalization of the Commonwealth's cities and towns. The Bank will continue to dedicate resources during 2004 to support activities of the Alliance and seek to involve member institutions in projects funded with AHP and CICA lending resources as a major economic development initiative throughout Kentucky.

During 2003, the Bank staff continued to meet with lenders in Memphis participating in the Memphis Business Opportunity Fund. The Fund is pooling resources from the City, from lenders, and others to create a vehicle for business lending and investment. The Fund is administered by Southeastern Community Capital, one of the Bank's Partners, and the Bank is sharing in the Fund's operating costs for the first two years.

#### **Technical Assistance**

The Bank will provide ongoing CICA funding resources, information and project structuring technical assistance to members and their partners in support of economic development and community lending activities. The technical assistance may include project structuring and brokering, and developing linkages between resource representatives and members.

#### **Education and Training**

The Bank will provide a variety of educational and training opportunities to members and sponsors involved in community lending. The training will be in the form of informational seminars, technical conferences, and other meetings co-sponsored with partnership organizations and others.

#### **Research**

The Bank will stay abreast of ongoing research to assess unmet credit needs and market opportunities occurring throughout the Fifth District. Updating of the original credit needs survey will continue through outreach to the participating organizations.

#### **Information Dissemination**

The Bank will utilize the website as a link with our partner organizations' websites to inform members, community organizations, small businesses, and entrepreneurs about pre-development and financing resources, business development opportunities, and other technical assistance resources.

The Bank will communicate information in Bank publications and others about successful programs and projects to encourage participation by members and partners in economic development activities.

The Bank will develop informational materials and models to promote member utilization of FHLB resources for community lending.

**Advisory Council**

The Bank will enhance the community lending knowledge of the Advisory Council and Housing and Community Development Committee through informational programs and presentations by outside providers.

**Staff Capacity Building**

The Bank will provide staff training opportunities that will support community lending financing skills and build capacity for providing technical assistance to members and their partners.

**PERFORMANCE GOALS**

The CICA regulation requires the Bank to develop annually performance goals and measurable achievement standards. The following goals and achievement standards have been identified for 2004.

- |  |    |
|--|----|
| 1. Approved economic development and community lending projects utilizing EDA and CIP advances.    | 50 |
| 2. AHP/CICA seminars and other meetings for member institutions and economic development partners. | 5  |
| 3. Approved Zero Interest Fund Projects  | 5  |
| 4. CICA/AHP funding transactions with Partnership Organizations                                    | 4  |